

USAID/Peru

Annual Report

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Peru

Performance:

Country Setting

Through the 1990's, Peru made significant progress in combating terrorism, reducing the production of coca, stabilizing its economy, and increasing access to social services. However, the government of President Fujimori collapsed in November 2000 under the weight of a decade of increasingly authoritarian rule, discredited elections, revelations of rampant corruption, and an economic downturn. A transitional government took measures to stabilize the political and social environment in Peru, culminating with elections of a new President, Congress, and regional/local authorities. Since 2001, the Government of Peru (GOP) has pursued an ambitious program to re-establish the country's democracy and promote a market-based economy that will provide benefits to all of Peru's citizens.

The lack of infrastructure and limited state presence in large portions of the country's interior challenge Peru's ability to govern and ensure broad-based development. With a current per capita GDP of about \$2,100, Peru has merely maintained its 1967 income level, in real terms. Income remains unevenly distributed, with approximately 54% of the population living below the poverty line, almost half of which live in extreme poverty. The lack of state presence permits drug trafficking, illegal logging, terrorism and other criminal practices to flourish, creating a corrupt, violent and conflictive environment that discourages investment, limits economic opportunities for the population, and stymies sustainable development.

While Peru's economy has recently out-performed the rest of Latin America (5.2% GDP growth in 2002 and 4% projected in 2003), the Toledo government remains politically weak and social discontent prevails. To move forward, Peru must take full advantage of the recent extension and expansion of tariff-free entry of Peruvian products to the U.S. market under the Andean Trade Promotion and Drug Eradication Act (APTDEA), initiate and conclude negotiations of a free trade agreement (FTA) with the United States, and prepare itself to participate in the Free Trade Area of the Americas (FTAA) to stimulate economic growth and reduce poverty levels. Likewise, Peru must successfully complete its decentralization process-to facilitate the dispersion of economic activity and more representative and effective governance throughout the country; reform the justice system-to ensure predictable and equitable application of criminal and commercial law; and comprehensively restructure government institutions to reduce corruption, control government expenses, and provide appropriate and effective services.

In the Toledo Administration, the USG has a partner that is committed to advancing our mutual national interests of building the infrastructure of democracy, promoting sustainable development, and defeating narco-terrorism. However, the GOP also is very vulnerable-the President's approval rating never topped 30% in 2003, and bottomed out at 11% in June and December. Popular dissatisfaction with political leadership feeds both legitimate opposition that would undermine the GOP's and USG's efforts to pursue free-market policies, as well as opposition that would seek to mobilize violent protests to destabilize/topple the government and advance the agenda of narco-terrorists. USG assistance can play a decisive role in ensuring that Peru emerges an economic, political and social model for its neighbors and the rest of the hemisphere, based on democratic, free-market principles.

USAID Program Overview

USAID's overarching goal is to contribute to the GOP's efforts to create jobs. The Program's objective, within its manageable interests, is to improve the climate for trade and investment-both domestic and international. Towards this end, USAID: 1) advances national-level policy reforms and strengthen key

institutions; and 2) supports health, education, environment, infrastructure, business development and governance activities in the geographic areas that have been prone to conflict, and thus present obstacles to investment, economic growth and employment generation. Inclusion of all Peruvians in the country's political, social and economic institutions and processes is necessary to reduce social conflict and establish sustainable development models. All USAID programs address gender concerns, to ensure that women have equal access to information and decision-making mechanisms at the community, local, regional and national levels; poor women can participate in viable income-generating endeavors; quality health services reduce maternal mortality; family planning services are responsive to men's as well as women's needs; and quality basic education is available to girls, especially in rural areas.

USAID's geographic focus areas are: 1) The 7 departments that include Peru's major coca-growing valleys, where USAID and other USG agencies work to combat the flow of illicit narcotics to the United States and other markets, to ensure that these areas are no longer a breeding ground for crime, terrorism and social unrest (these departments comprise about a third of Peru's land mass, 20% of its population, and a third of its extreme poor); and 2) the Peru-Ecuador border region, where USAID will help ensure a lasting peace between the two countries. Within these geographic focus areas, USAID coordinates with political and community leaders to provide assistance at several levels: at the regional level (e.g., supporting infrastructure development, service delivery systems, larger-scale private sector initiatives, financial services, forest management); at the municipal level (e.g., strengthening the administrative capacity of local governments, secondary road maintenance, business development services); at the community level-especially where auto-eradication agreements have been signed (e.g., small-scale economic and social infrastructure, land titling, productivity improvements, health and nutrition services).

Working closely with the State Department and other members of the Embassy Country Team, USAID's program in Peru is closely aligned with the strategic goals and priorities outlined in the new "Department of State-USAID Strategic Plan", as well as the Embassy's "Mission Performance Plan". USAID activities help ensure regional stability (e.g., through the Peru-Ecuador Border Program and cross-country Alternative Development coordination); combat international crime and drugs (e.g., by directly contributing to coca reduction targets, policy/communication efforts to confront and marginalize narco-terrorist interests, enhancing state presence in conflict-prone areas); advance sustainable development (e.g., by facilitating democratic, economic and social sector policy reforms, institutional strengthening and service delivery); and increasing an understanding of American values and policies (e.g., through a comprehensive development communications program).

While in the terms of the "White Paper: U.S. Foreign Aid" Peru is considered a relatively stable developing country, USG action-including USAID's assistance program-can play a decisive role in determining whether Peru moves smartly towards "graduation from development assistance" or begins a spiral towards the "chaos and crisis" that characterizes fragile states. The path taken will depend on Peru's ability to generate jobs and increase income, and the degree to which USAID programs can improve the climate for trade and investment, by reducing corruption, mitigating social conflict, and increasing competition and competitiveness.

Key Achievements in 2003: USAID achievements over the last year included:

Transparent Democratic Governance to Limit Corruption

--With USAID as the leading donor, the Truth Commission's mandate concluded with the issuance of its final report in August 2003, documenting and analyzing the acts of politically motivated violence in Peru from 1980-2000. The broad dissemination and discussion of the Commission's work should form the basis for national reconciliation, to include the further marginalization of terrorist groups who were responsible for the majority of deaths and disappearances, and specific GOP actions to ensure attention to the populations most affected by the violence. The report also highlighted specific institutional reforms that should be undertaken to address the conditions that fostered the rise and spread of past political violence, many of which still exist today. These include the lack of effective state presence, insufficient access to justice, inadequate education, low citizen participation and involvement, and dispersed local

development efforts. The Mission's overall integrated development approach which is focused on those regions most affected by political violence will help address these conditions. In addition on the individual level, the Mission has already financed counseling to more than 880 victims and family members, and is initiating a broader package of assistance under USAID/Washington's Victims of Torture Fund

--In January 2003 newly elected regional presidents and provincial/district mayors took office across the country. USAID has played a central role in facilitating the decentralization process, to include providing training to 6 regional and 155 municipal governments in USAID's geographic focus area (including 10 in the Peru-Ecuador border region), and supporting transfer of social programs to local governments (50% of districts have qualified). In addition, USAID helped develop a plan for decentralization of health services, including a process for transferring specific roles, responsibilities and management functions to the 25 new regional governments.

--Over the last year, the Ombudsman received more than 65,000 requests for assistance, with 87% resolved within the year. The majority of requests or complaints related to public service provision (especially pensions and education) and human rights (judiciary, Police).

--USAID assisted with the establishment of permanent technical staff for Congressional committees, mechanisms for external oversight of Congress, and public hearings and technical assistance for key legislation (justice reform, penal code, decentralization, constitutional reform, Amazonia development).

--Despite pressure by vocal cocalero groups to develop a law that would make virtually all coca production legal, USAID worked with Congressional committees/leadership-at arm's length-to ensure that proposed legislation would provide a clear framework for distinguishing legal from illegal coca and sanction illegal production. Greater political consensus has been achieved through stakeholders analysis and activities designed to build coalitions of support.

--Supreme Decree No.044-PCM-2003 was enacted in April 2003, setting the stage for a series of activities to improve the ability of the government to manage the production and distribution of coca in Peru. DEVIDA was required to carry out an analysis of the legal coca demand for traditional chewing and cultural practices and for industrial/commercial use.

Accountable Social Governance to Reduce Conflict (primarily in the coca growing-regions and selected areas along the border with Ecuador)

-- Between October 2002 and December 2003, the newly established voluntary coca eradication program resulted in the elimination of 5,445 hectares. More significantly, between January and December 2003, Peru eradicated more than 11,000 hectares of coca (compared to a CY 2003 target of 8,000), including 4,441 hectares (about 40%) through auto-eradication. Currently, 459 communities (about 19,000 families) have voluntarily inscribed in the community development/auto-eradication program, and the pace of the program has reached the point that in November alone over 1,400 hectares were eradicated.

--Recent opinion polls reflect that 90% of urban Peruvians recognize the link between coca leaf cultivation and narco-trafficking, and that the majority of Peruvians view cocalero groups as unreasonable in their demands and favor GOP action to address the illegal coca problem. A nationwide political stakeholder analysis revealed that key players see coca cultivation and narco-trafficking as important problems in Peru, and that they are willing to act on these issues given institutional leadership on the issue. Radio, press, and, most importantly, face-to-face communications with beneficiaries has convinced over 15,000 families to enter agreements with the GOP to voluntarily eradicate their coca and remain coca free.

--In and around communities participating in the auto-eradication program, USAID assisted more than 11,000 families to produce licit crops on 23,100 hectares; improved 1,251 kilometers of roads, 18 bridges, 124 potable water systems, 7 electricity systems, 4 irrigation systems, and 157 schools/health posts.

--USAID-assistance led to the generation of 33,820 full-time equivalent jobs, and more than \$22 million in new sales, including \$9.7 million in exports.

--USAID-supported financial mechanisms serve more than 150,000 clients. These mechanisms include 3 rural savings and loans, which have received \$12 million in DCA loan guarantees. Approximately 57% of loans are to poor clients borrowing less than \$400, and 64% of all clients are women.

--USAID support for efforts to control illegal logging resulted in the confiscation of 273 cubic meters of mahogany and 400,000 board feet of wood in threatened biodiverse regions of the country.

--USAID supported the preparation of management plans for 4 protected areas (1.7 million hectares).

--With USAID support to design and implement forest concessions, nearly 5 million hectares are under sustainable management plans. Of this, USAID is providing direct assistance for 1.5 million hectares of forest under private and communal management. USAID's forest management activities resulted in the creation of more than 400 full-time jobs and timber sales of nearly \$5 million.

--Technical assistance resulted in the reduction of pollution by more than 10% in 9 industrial plants, and loans valuing \$415,000 will introduce clean technologies to serve as models for broader application.

--Through the PL 480 Title II program, 43,460 of the poorest, most needy and food-insecure segments of the population participated in food for work programs. This included the rehabilitation of 315 km of rural roads resulting in greater market access for 5,035 families.

--USAID distributed food to more than 1,090 communities in 43 districts prioritized under the auto-eradication program.

--During the last year, 143,584 children and 146,295 women participated in Title II nutrition and health program activities. 7,880 families were provided with access to new sanitary/health infrastructure works, including latrines and potable water systems, directly benefiting 4,400.

--With USAID assistance, 50 of Peru's 80 universities began utilizing the new accreditation methodology for medical professionals. The 28 participating medical schools have nearly completed this process, and the 47 nursing schools are at the intermediate "self evaluation" stage. The participating institutions from the three disciplines have also come together to propose a new national accreditation institute. Work is advancing rapidly on new national professional standards, and in 2004 the first-ever National Exam at the end of medical training will be administered by the Peruvian Association of Schools of Medicine.

--USAID supported two emergency vaccination campaigns that were undertaken by the Ministry of Health to bring up declining vaccination coverage rates.

--MaxSalud, USAID's private health provider, increased its number of new patients from 35,418 in 2002 to 38,968 in 2003; the number of births attended increased from 514 to 572; and the total number of patient visits increased from 166,078 in 2002 to 226,091. USAID's experiment in cost recovery continued to demonstrate that quality services delivered to low income patients can approach financial self-sufficiency. MaxSalud cost recovery has grown from 44% in 2000 to 60% in 2002, and will approach 70% in 2003.

--Beginning in 2004, the MOH will procure its own contraceptives, culminating a multi-year process of incremental phase-down of USAID contraceptive donations.

-- USAID continued its ongoing program of monitoring Peru's compliance with the requirements of the Tiahrt Amendment. In addition to the USAID-supported monitoring by the Human Rights Ombudsman, two USAID subcontractors conducted a random sample of 45 hospitals, surveying 2,217 women and 237 providers. No Tiahrt Amendment violations were detected in 2003.

--The production and broadcast of the radionovelas represented a major innovation in USAID's health sector approach. The "radionovelas", which deal with a range of health issues, target an audience of women aged 20-35 in the departments of Ancash, Ayacucho, Huancavelica, La Libertad, and Puno. The audience is estimated at 1.5 million women.

--As an early action under its new Education Sector initiative, USAID financed a training workshop of 250 teachers and school principals and sub-regional education authorities on the new Education Law, prepared a report on the status of the Pedagogical Institutes in the Department of San Martin (the focus of USAID's Education Program), and conducted a consultative process in San Martin to define the vision of parents, students and teachers with respect to school and teacher quality.

--In its initial months, the Andean (Peru, Bolivia and Ecuador) CETT trained 55 trainers, 1,119 teachers, 196 school directors, 14 Ministry officials, and 16 professors from teacher training institutes.

--In the Peru-Ecuador border region, almost 1,000 small producers improved their agriculture production (poultry, fishponds, honey bee, potatoes, orchids, sugar cane derivatives, palm heart, tropical fruits, and vegetables) for local consumption and local markets. USAID assisted parents and teachers in 227 rural schools to apply democratic, transparent and participatory local school management methodologies, benefiting 8,500 students. More than 470 health providers (community health promoters and Ministry workers) were trained to work with more than 94 health community committees and networks, and 13 health posts with improved infrastructure and/or equipment (e.g., radio communication, boats and cold chain equipment) provided access to health services for critical needs of isolated communities (a population of 50,000 indigenous people).

Predictable Economic Governance to Increase Competition and Competitiveness:

--USAID technical assistance and political leverage provided the impetus for the development of two major concessions (the Northern Amazon and Central Axes, as part of the South American trans-oceanic transportation initiative); official tenders for public-private partnerships were issued in October.

--USAID assisted the GOP to develop its Trade Capacity Building Strategy, as part of the Hemispheric Cooperation Program, which will provide the basis for actions to be taken (with USAID support) as part of negotiations of a bilateral free trade agreement with the U.S. and the Free Trade Area of the Americas.

--While USAID's economic policy reform/institutional strengthening program just began in the second half of FY 2003, significant progress has been made to promote pension fund reform, port restructuring, establishment of commercial courts, and revisions of government procurement systems.

Presidential Initiatives: USAID/Peru is currently contributing to eight Presidential Initiatives, with the total planned financing of at least \$40.0 million over the next three years.

1) Global Development Alliance: USAID/Peru has developed the several resource-leveraging alliances with non-public institutions, including the following: (i) The Buenaventura Mining Company joined forces with USAID/Peru to develop an Economic Services Center in the country's poorest region (Huancavelica). (ii) USAID leveraged funding from the Field Museum of Chicago to support privately funded management of Peru's Cordillera Azul National Park; (iii) Through the Development Credit Authority and other guarantee mechanisms, USAID has supported five loan portfolio guarantees worth over \$30 million with up-front funding of only \$1,278,400; (iv) USAID established a guarantee to cover a portion of the costs of establishing sugar cane seed beds, to leverage a multi-million investment in one of Peru's major coca-growing areas by a U.S.-Peruvian energy company. In total, we expect to leverage more than \$60 million dollars in non-public resources, based on USAID investments totaling about \$10 million. In addition, in linking producers and markets, USAID's Economic Service Centers have on several occasions identified investors in local productive facilities/processes; and in mid-FY 2003 the Mission began providing technical support to develop public-private partnerships, based on concessions to be issued by the GOP to private operators/investors.

2) Anti-Illegal Logging: USAID is promoting a bi-national agreement between the US and the GOP to generate a commitment to implement important anti-illegal logging activities. In addition, USAID supports national efforts to reform and modernize Peru's forest sector and to enforce the Forest Law and regulations via effective control and supervision of private forest concessions and the improved

management of protected areas. USAID also assists native communities to manage forests and certify their wood products. USAID is promoting alliances with US-based mahogany retailers and Peruvian mahogany exporters.

3) Global Climate Change: USAID/Peru is supporting activities that protect forests and promote sustainable resource management, thus helping to maintain a significant portion of South America's carbon storage in land use and forestry. USAID/Peru is also supporting the design and implementation of a new air quality program for the city of Lima.

4) Digital Freedom Initiative: This initiative is in the design stage in Peru. The Mission expects to invest \$1 million as a catalyst for innovative uses of Information Technology (IT).

5) Water for the Poor: USAID/Peru provides water and sanitation services in isolated rural areas, primarily in coca-growing areas and along the Peru-Ecuador border.

6) Clean Energy: USAID/Peru plans to support the "Village Energy Partnership" component of the Clean Energy Initiative through the development of electricity infrastructure to underserved populations in coca producing valleys and the San Ignacio region, near the Ecuadorian border.

7) Center of Excellence for Teacher Training: The Andean CETT has completed its first year of activities having piloted a training program using special methods and techniques for teaching reading and writing in rural and peri-urban contexts.

8) HIV/AIDS: USAID/Peru will help improve the Ministry of Health surveillance system; provide technical assistance to CONAMUSA, a consortium of public and private sector organizations that will be programming funds for antiretroviral treatment of AIDS sufferers; and support communication and educational activities designed to change behaviors of young Peruvians and sub-populations that are at high risk of exposure to HIV.

Country Close and Graduation:

Results Framework

527-001 Broader Citizen Participation in Democratic Processes

527-002 Increased Incomes of the Poor

527-003 Improved Health, Including Family Planning, of High-risk Populations

527-004 Improved Environmental Management of Targeted Sectors

527-005 Reduced Illicit Coca Production in Target Areas in Peru

527-006 Local Management of Quality Basic Education in Selected Geographic Areas

SO Level Indicator(s):

of MOE policies related to decentralized local management of schools implemented in selected regions

% of children that complete primary school in project schools in the normal primary cycle (6 years)

IR 1 Policies implemented to promote decentralized management of quality basic education programs.**

IR 2 Local basic education programs in selected communities improved.**

527-007 Other Activities in Support of Country Development Strategy (PD&S/PD&L)

527-008 Improved Quality of Life of Peruvians Along the Peru-Ecuador Border Target Areas

SO Level Indicator(s):

1. Percentage of households with two or more unsatisfied basic needs (UBN)

2. Childrens 4th grade completion rate

3. Chronic malnutrition rate

IR 1 Increased capacity of border communities to manage the development process

IR 2 Improved basic capacities for a healthy and productive life

IR 3 Increased respect and protection of rights of border populations, particularly those of women and indigenous people

IR 4 Increased support to the Peace Accords

527-009 Democratic Processes and Institutions Strengthened in Critical Areas

SO Level Indicator(s):

1. Level of implementation of key constitutional reforms supportive of the democratic transition

2. Percentage of OAS-recommended reforms that are implemented

3. Citizen approval ratings of key government institutions

IR 1 Improved stakeholder participation in the adoption and implementation of key policy reforms supportive of the democratic transition

IR 2 Increased responsiveness of elected sub-national governments to citizens at the level in selected regions

IR 3 Congressional performance improved to be more independent, effective and representative of citizen interests

IR 4 Justice sector performance improved to be more independent, transparent and efficient in protecting fundamental rights

527-010 Increased Economic Opportunities for the Poor

SO Level Indicator(s):

1. Percentage of extremely poor in economic corridors

2. Poverty expenditure Gap (Gap between average total expenditures of the poor and the value of basic basket of goods and services)

IR 1 Improved Business Climate for Economic Growth, Trade and Investment

IR 2 Increased Availability of Financial Services

IR 3 Improved Access to and Participation in Markets

IR 4 Improved Capacity of the Poor to Participate in Economic and Social Life

527-011 Improved Health for Peruvians at High Risk

SO Level Indicator(s):

1. Infant Mortality Rate
 2. Fertility Gap
 3. Adolescent pregnancy rate
- IR 1** Quality Services Accessible and Utilized
IR 2 People Practicing Healthy Behaviors
IR 3 Health Sector Policies and Programs More Responsive to Health Needs

527-012 Strengthened Environmental Management to Address Priority Problems

SO Level Indicator(s):

1. Number of hectares of forest under sustainable forest management plans
 2. Number of hectares of natural protected areas under improved management systems
 3. Number of industrial plants reducing their pollution by 10% or more
- IR 1** National Environmental Policy and Institutional Framework Strengthened
IR 2 Local Environmental Management Capacity Strengthened
IR 3 Number of industrial plants reducing their pollution by 10% or more

527-013 Sustained Reduction of Illicit Coca Production in Targeted Areas of Peru

SO Level Indicator(s):

1. Number of hectares devoted to coca production in Peru
 2. Coca leaf production in Peru
 3. Number of AD clients that remain coca free
- IR 1** Rule of law strengthened
IR 2 Willingness to reject coca
IR 3 Licit economic opportunities available
IR 4 Effective social governance